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MEMORANDUM

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TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: October 25, 2006

RE: IN THE MATTER OF THE APPLICATION OF SANTA CRUZ WATER COMPANY, LLC TO TRANSFER ITS CERTIFICATE OF CONVENIENCE AND NECESSITY AND ASSETS TO GLOBAL WATER - SANTA CRUZ WATER COMPANY, DOCKET NOS. W-03576A-06-0155 & W-20446A-06-0155

IN THE MATTER OF THE APPLICATION OF PALO VERDE UTILITIES COMPANY, LLC TO TRANSFER ITS CERTIFICATE OF CONVENIENCE AND NECESSITY AND ASSETS TO GLOBAL WATER - PALO VERDE UTILITIES COMPANY, DOCKET NOS. SW-03575A-06-0155 AND SW-20445A-06-0155

Attached is the Staff Report for Santa Cruz Water Company, LLC and Palo Verde Utilities Company, LLC application to transfer their Certificates of Convenience and Necessity and related assets to Global Water – Santa Cruz Water Company and Global Water – Palo Verde Utilities Company, respectively. Staff recommends approval of the transfers subject to conditions.

EGJ:JJD:tdp

Originator: James J. Dorf

Arizona Corporation Commission
DOCKETED

OCT 25 2006

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Docket Nos. W-03576A-06-0155, et al

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**SANTA CRUZ WATER COMPANY, LLC AND
GLOBAL WATER – SANTA CRUZ WATER COMPANY
DOCKET NOS. W-03576A-06-0155 & W-20446A-06-0155**

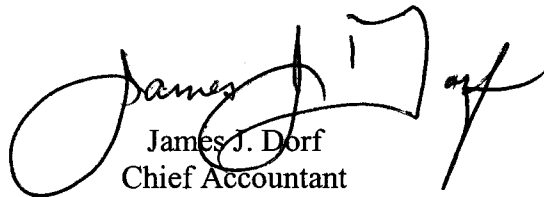
**PALO VERDE UTILITIES COMPANY, LLC AND
GLOBAL WATER – PALO VERDE UTILITIES COMPANY
DOCKET NOS. SW-03575A-06-0155 & SW-20445A-06-0155**

**IN THE MATTER OF THE APPLICATIONS TO TRANSFER
CERTIFICATES OF CONVENIENCE AND NECESSITY AND ASSETS**

OCTOBER 25, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Santa Cruz Water Company, LLC and Palo Verde Utilities Company, LLC, Docket Nos. W-03576A-06-0155, W-20446A-06-0155 & SW-03575A-06-0155, SW-20445A-06-0155, was the responsibility of Staff member James J. Dorf who was responsible for the review and analysis of the applications.



James J. Dorf
Chief Accountant

EXECUTIVE SUMMARY
SANTA CRUZ WATER COMPANY, LLC ET AL
DOCKET NOS. W-03576A-06-0155

Santa Cruz Water Company, LLC and Palo Verde Utility Company, LLC (collectively "Current Global Subsidiaries") filed with the Arizona Corporation Commission ("Commission") an application to transfer their Certificates of Convenience and Necessity ("CC&Ns") to Global Water – Santa Cruz Water Company ("Global Santa Cruz") and Global Water – Palo Verde Utilities Company ("Global Palo Verde") (collectively "New Global Subsidiaries").

The Current Global Subsidiaries also request that the Commission approve the transfer of their assets to the New Global Subsidiaries. The Current Global Subsidiaries and the New Global Subsidiaries are direct or indirect wholly-owned subsidiaries of Global Water Santa Cruz Water Company, LLC and Palo Verde Utilities Company, LLC (collectively "Global Subsidiaries").

Staff acknowledges that the corporations are more transparent than limited liability companies and including Global Water in the names of the New Global Subsidiaries will improve recognition of the Global controlled companies.

Staff recommends that the proposed transfer of the Current Global Subsidiaries CC&Ns and assets, as described in the application, to the New Global Subsidiaries be approved subject to the following compliance items:

1. The New Global Subsidiaries will utilize the existing rates and charges of the Current Global Subsidiaries.
2. The New Global Subsidiaries will continue to comply with all compliance obligations of the CC&Ns and obtain all Arizona Department of Water Resources and Arizona Department of Environmental Quality approvals by the dates specified in the CC&N Orders.
3. The New Global Subsidiaries will maintain the bonds required by the CC&N Orders.
4. The New Global Subsidiaries will maintain the existing financial condition of the Current Global Subsidiaries and confirm as much, as a compliance item in this docket, by docketing the pre and post transfer balance sheets for each of the Current and New Global Subsidiaries within 90 days subsequent to the completion of the transfers.
5. The new Global Subsidiaries will comply with all requirements related to Advances in Aid of Construction, customer deposit and other Commission ordered financial conditions.

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Introduction

On March 9, 2006, Santa Cruz Water Company, LLC and Palo Verde Utility Company, LLC (collectively "Current Global Subsidiaries") filed with the Arizona Corporation Commission ("Commission") an application to transfer their Certificates of Convenience and Necessity ("CC&Ns") to Global Water – Santa Cruz Water Company ("Global Santa Cruz") and Global Water – Palo Verde Utilities Company ("Global Palo Verde") (collectively "New Global Subsidiaries"). The Current Global Subsidiaries also request that the Commission approve the transfer of their assets to the New Global Subsidiaries. The Current Global Subsidiaries and the New Global Subsidiaries are direct or indirect wholly-owned subsidiaries of Global Water Resources, LLC ("Global").

The New Global Subsidiaries have been formed as corporations. Global's intent is that any new subsidiaries that apply for CC&Ns will be formed as corporations.

The Commission transferred the CC&Ns to the Current Global Subsidiaries in Decision No. 66394 (October 6, 2003). In early 2004, Global obtained ownership of the Current Global Subsidiaries from their prior owners. Global has subsequently acquired additional water and other companies. A current Global ownership chart is provided as Exhibit A.¹

The Current Global Subsidiaries have additional applications pending at the Commission in the following dockets:

1. SW-03575A-05-0926 and W-03576A-05-0926
2. SW-03575A-05-0470 and W-03576A-05-0470
3. SW-03575A-06-0545 and W-03576A-06-0545

If the Commission issues final orders concerning these pending applications prior to ruling on this Application, no change in the pending applications is needed. If the Commission rules on this Application before it issues final orders concerning the pending applications, the applicants in those cases should be changed to the New Global Subsidiaries.

Proposed Transfer

The New Global Subsidiaries are 100 percent owned by Global Water Resources, Inc which is in turn 100 percent owned by Global. Other than being corporations, the New Global Subsidiaries will retain the same officers and directors of the Current Global Subsidiaries. The certified operators will be the same and there are no planned changes to existing or planned facilities. The New Global Subsidiaries will utilize their existing rates and charges and there will be no changes in the capitalization and financing of the subsidiaries as a result of the proposed transfers.

¹ The following Commission Decision Nos. either granted or extended the CC&N's for the Current Global Subsidiaries and will be referred to as the CC&Ns: 61943, 66394, 67240, 67830, 68186 and 68448.

The New Global Subsidiaries indicate that they will continue to comply with all compliance obligations of the CC&Ns and obtain all Arizona Department of Water Resources ("ADWR") and Arizona Department of Environmental Quality ("ADEQ") approvals by the dates specified in the CC&N Orders.

The New Global Subsidiaries will maintain the bonds required by the CC&N Orders. Their financial conditions will remain the same as all of the assets, liabilities and capital will be transferred to the New Global Subsidiaries.

The New Global Subsidiaries will assume the same tax basis for all assets transferred. Global is current on all property taxes.

Global has indicated that once it has received approval and the transfers are completed, the Current Global Subsidiaries will be dissolved.

To the extent that the corporation may be subject to federal and state income taxes, Staff recommends that Global's income tax obligations be evaluated when the New Global Subsidiaries file for new rates.

Public Interest Analysis

Global asserts that the proposed transfers are in the public interest because the Commission prefers regulated utilities to be corporations and the transfers result in the CC&Ns being held by corporations. Global cites the *Notice of Inquiry Regarding the Form of Organization of Public Service Corporations* dated December 3, 2004.

The Commission has taken no action regarding the responses to the notice of inquiry.² Although Staff is aware that Commissioners have expressed some concerns regarding limited liability company transfers of ownership interests, no formal Commission decision has been reached regarding which types of entities the Commission favors for public service companies.

Global also asserts that the new corporate names will reduce customer confusion as to which entity provides their water and/or wastewater service. Global has implemented an advertising campaign utilizing a new logo and "Global Water" in each ad. See Exhibit B for a recent advertisement in the Wall Street Journal.³ By using Global Water as part of the New Global Subsidiaries names, the public and regulators will be able to clearly link the new subsidiaries to Global.

² The Commission received 14 responses to the notice of inquiry.

³ Wall Street Journal, October 11, 2006, page B5G.

Staff Evaluation

Staff does not object to the proposed transfer. Staff concludes that the corporate form of ownership is appropriate and provides additional transparency. Corporations are typically more formal than limited liability companies. For example corporations typically require formal articles of incorporation, require that minutes of board meetings be maintained, etc.

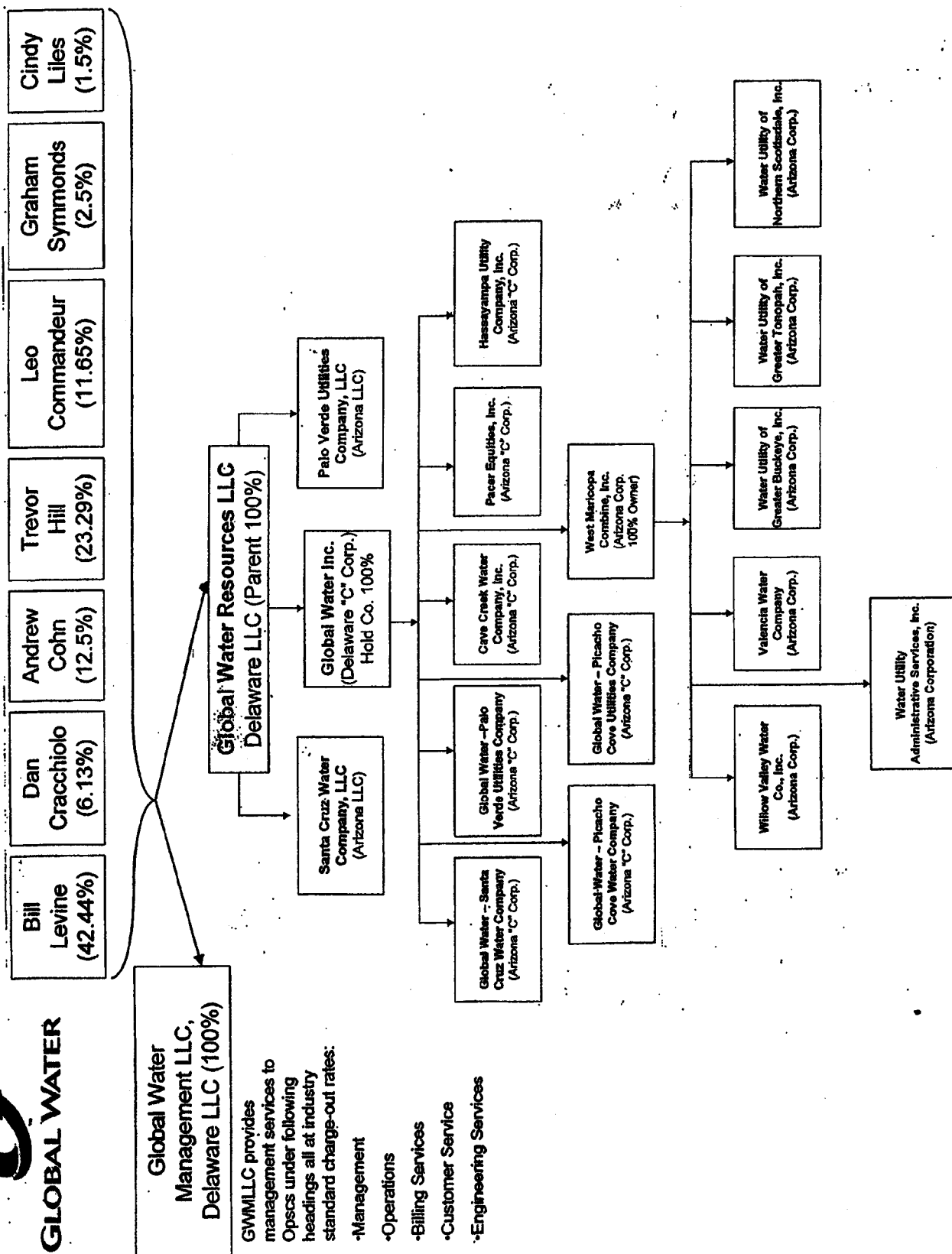
There are no negative income or property tax matters related to the transfers as the assets of the New Global Subsidiaries will have the same tax basis as the Current Global Subsidiaries.

Staff also acknowledges that the New Global Subsidiaries which includes Global Water as part of the company name will be less confusing to customers and regulators.

Staff Recommendation

Staff recommends that the proposed transfer of the Current Global Subsidiaries CC&Ns and assets, as described in the application, to the New Global Subsidiaries be approved subject to the following compliance items:

1. The New Global Subsidiaries will utilize the existing rates and charges of the Current Global Subsidiaries.
2. The New Global Subsidiaries will continue to comply with all prior Commission Decisions and all compliance obligations of the current CC&Ns and obtain all ADWR and ADEQ approvals by the dates specified in those CC&N Orders.
3. The New Global Subsidiaries will maintain the bonds required by the current CC&N Orders. Their financial conditions will remain the same as all of the assets, liabilities and capital will be transferred to the New Global Subsidiaries.
4. The New Global Subsidiaries will maintain the existing financial condition of the Current Global Subsidiaries and confirm as much, as a compliance item in this docket, by docketing the pre and post transfer balance sheets for each of the Current and New Global Subsidiaries within 90 days subsequent to the completion of the transfers.
5. The new Global Subsidiaries will comply with all requirements related to Advances in Aid of Construction, customer deposit and other Commission ordered financial conditions.





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Water utilities serve a wide variety of customers. At Global Water, one of our biggest is the environment. By reclaiming and reusing residential wastewater, we're able to provide water for many residential and commercial uses without making additional demands on natural aquifers. It keeps our communities and the desert that surrounds them more livable. And that's valuable for all our customers. gwresources.com



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